The role of industry clusters in economic development in some Midwest cities

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Some economists point to metropolitan areas as the prime factor in future U.S. economic growth. The cities within those areas, they maintain, promote clusters of industries whose synergy enables them to share specialized labor, knowledge, and other resources that make the firms in those industries more productive. In "Industry clusters and economic development in the Seventh District's largest cities" (Federal Reserve Bank of Chicago, *Economic Perspectives*, second quarter 2014), Rick Mattoon and Norman Wang show how this idea of industry clusters and economic development is realized in five medium-to-large cities in the Seventh Federal Reserve District, a region that makes up much of the U.S. Midwest. The five cities—Des Moines, Indianapolis, Milwaukee, Detroit, and Chicago—differ in their industry mix and in their employment and wage growth but share a common feature of having a clear economic development strategy. The strategy, which is different for each city, is based on the nature of their industry clusters.

Des Moines has three main industry clusters: financial services, business services, and education and knowledge creation. Employment in these Des Moines clusters grew substantially faster than it did in the same industries nationally from 1998 to 2009, but the Des Moines wages were substantially lower. Des Moines has a 5-year plan that seeks to market the city's information, health, agriculture, manufacturing, logistics, and finance and insurance industries.

Indianapolis has high employment concentrations in the real estate, rental, and leasing industry, as well as in finance and insurance, transportation and warehousing, administrative and waste services, and construction. During the 1998–2009 period, nationwide employment growth was faster for transportation and logistics, education and knowledge creation, and hospitality and tourism than the U.S. average for all industries combined—but only the first of these is an industry cluster in the city. Indianapolis's economic strategy for growth identifies five factors that give the city comparative advantages; in addition, the strategy targets advanced manufacturing and technology industries for growth on the basis of both the city's industrial clusters and comparative advantages.

Milwaukee's chief industry clusters are management of companies, manufacturing, educational services, finance and insurance, and health care. Two of these—manufacturing and health care—along with retail trade make up more than a third of the city's employment. Milwaukee's development plan recognizes that the city's economy has been lagging in the past decade and, to address this issue, the plan identifies nine strategies that focus on improving productivity across industrial clusters.

Detroit has industry concentrations in health care, administrative and waste services, management of companies, professional and technical services, and manufacturing. Three of these—health care, professional and technical services, and manufacturing—along with retail trade account for more than half of the city's employment. Because

it is in bankruptcy court (and because it has lost more than half its population since 1950), Detroit's economic development challenges are greater than those of the other cities examined. To meet these challenges, the city has created a plan that seeks to leverage Detroit's core assets in its industry clusters and beyond to stabilize both the economy and the city's population.

Chicago, the most populous by far of the five cities examined, also has the most diversified industry cluster concentration. It spans eight sectors with employment above the national average. Still, employment *growth* in these sectors was less than the national average from 1998 to 2009 (although wages in a number of them were above the national average over the same period). Chicago's plan for economic development emphasizes the diversity of the city's industry cluster and focuses on one of them—business services—as a magnet for attracting companies' headquarters, already a major feature on the city's landscape.